

PARK CITY GROUP INC
Form 10-Q
February 06, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended December 31, 2016

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from _____ to _____.

Commission File Number 001-34941

PARK CITY GROUP, INC.
(Exact name of small business issuer as specified in its charter)

Nevada 37-1454128
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

299 South Main Street, Suite 2370 Salt Lake City, UT 84111
(Address of principal executive offices)

(435) 645-2000
(Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Sec.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large-accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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Indicate by checkmark if whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

State the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, \$0.01 par value, 19,385,161 shares as of February 6, 2017.

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Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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PARK CITY GROUP, INC.
Consolidated Condensed Balance Sheets

Assets	December 31, 2016	June 30. 2016
Current Assets:	(unaudited)	
Cash and cash equivalents	\$12,062,764	\$11,443,388
Receivables, net of allowance of \$210,215 and \$75,000 at December 31, 2016 and June 30, 2016, respectively	4,143,662	3,048,774
Prepaid expense and other current assets	350,043	393,275
Total current assets	16,556,469	14,885,437
Property and equipment, net	340,387	469,383
Other assets:		
Long-term receivables, deposits, and other assets	1,533,082	514,060
Investments	471,584	471,584
Customer relationships	1,116,900	1,182,600
Goodwill	20,883,886	20,883,886
Capitalized software costs, net	167,696	182,942
Total other assets	24,173,148	23,235,072
Total assets	\$41,070,004	\$38,589,892
Liabilities and Stockholders' Equity (Deficit)		
Current liabilities:		
Accounts payable	\$483,289	\$580,309
Accrued liabilities	1,367,353	1,502,203
Deferred revenue	2,442,172	2,717,094
Lines of credit	2,750,000	2,500,000
Current portion of notes payable	196,827	239,199
Total current liabilities	7,239,641	7,538,805
Long-term liabilities:		
Notes payable, less current portion	399,734	491,253
Other long-term liabilities	49,176	57,275
Total liabilities	7,688,551	8,087,333
Commitments and contingencies	-	-

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Stockholders' equity:

Series B Preferred stock, \$0.01 par value, 700,000 shares authorized; 625,375 shares issued and outstanding at December 31, 2016 and June 30, 2016	6,254	6,254
Series B-1 Preferred stock, \$0.01 par value, 300,000 shares authorized; 226,640 and 180,213 shares issued and outstanding at December 31, 2016 and June 30, 2016, respectively	2,266	1,802
Common stock, \$0.01 par value, 50,000,000 shares authorized; 19,357,957 and 19,229,313 issued and outstanding at December 31, 2016 and June 30, 2016, respectively	193,582	192,296
Additional paid-in capital	74,539,235	73,272,620
Accumulated deficit	(41,359,884)	(42,970,413)
Total stockholders' equity	33,381,453	30,502,559
Total liabilities and stockholders' equity	\$41,070,004	\$38,589,892

See accompanying notes to consolidated condensed financial statements.

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PARK CITY GROUP, INC.

Consolidated Condensed Statements of Operations (unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Revenues	\$4,785,589	\$3,536,792	\$9,002,134	\$6,635,423
Operating expenses:				
Cost of services and product support	1,190,404	998,928	2,393,919	2,173,474
Sales and marketing	1,159,073	1,401,068	2,352,249	2,843,640
General and administrative	938,087	732,444	1,961,237	1,509,774
Depreciation and amortization	112,861	127,416	229,441	256,514
Total operating expenses	3,400,425	3,259,856	6,936,846	6,783,402
Income (loss) from operations	1,385,164	276,936	2,065,288	(147,979)
Other expense:				
Interest income (expense)	(6,836)	3,691	(13,323)	21,314
Loss on Disposition of Investment	-	556	-	556
Income (loss) before income taxes	1,378,328	281,183	2,051,965	(126,109)
(Provision) benefit for income taxes:	-	-	(59,184)	-
Net income (loss)	1,378,328	281,183	1,992,781	(126,109)
Dividends on preferred stock	(195,448)	(170,560)	(382,252)	(369,948)
Net income (loss) applicable to common shareholders	\$1,182,880	\$110,623	\$1,610,529	\$(496,057)
Weighted average shares, basic	19,338,000	19,147,000	19,302,000	19,094,000
Weighted average shares, diluted	20,313,000	20,034,000	19,493,000	19,094,000
Basic income (loss) per share	\$0.06	\$0.01	\$0.08	\$(0.03)
Diluted income (loss) per share	\$0.06	\$0.01	\$0.08	\$(0.03)

See accompanying notes to consolidated condensed financial statements.

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PARK CITY GROUP, INC.

Consolidated Condensed Statements of Comprehensive Income (unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Net income (loss) applicable to common shareholders	\$1,182,880	\$110,623	\$1,610,529	\$(496,057)
Other comprehensive income (loss):				
Unrealized loss on marketable securities	-	(33,994)	-	(37,548)
Reclassification adjustment	-	556	-	556
Net loss on marketable securities	-	(33,438)	-	(36,992)
Comprehensive income (loss)	\$1,182,880	\$77,185	\$1,610,529	\$(533,049)

See accompanying notes to consolidated condensed financial statements.

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PARK CITY GROUP, INC.

Consolidated Condensed Statements of Cash Flows (Unaudited)

	Six Months Ended December 31,	
	2016	2015
Cash Flows Operating Activities:		
Net income (loss)	\$1,992,781	\$(126,109)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	229,441	256,514
Stock compensation expense	578,080	484,859
Bad debt expense	155,700	33,576
Gain on short-term marketable securities		(556)
(Increase) decrease in:		
Trade receivables	(2,269,610)	(955,116)
Prepays and other assets	43,232	14,928
(Decrease) increase in:		
Accounts payable	(97,020)	9,756
Accrued liabilities	21,385	(12,498)
Deferred revenue	(274,922)	375,447
Net cash used in operating activities	379,067	80,801
Cash Flows From Investing Activities:		
Cash from sale of marketable securities	-	668,634
Capitalization of software costs	-	(77,382)
Purchase of marketable securities	-	(4,672,474)
Purchase of property and equipment	(19,499)	(24,065)
Net cash used in investing activities	(19,499)	(4,105,287)
Cash Flows From Financing Activities:		
Net increase in lines of credit	250,000	-
Proceeds from employee stock plans	113,987	93,194
Proceeds from exercise of options and warrants	35,000	-
Proceeds from exercise of warrants	-	33,002
Dividends paid	(5,288)	(5,288)
Payments on notes payable and capital leases	(133,891)	(112,427)
Net cash provided by financing activities	259,808	8,481
Net increase (decrease) in cash and cash equivalents	619,376	(4,016,005)

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Cash and cash equivalents at beginning of period	11,443,388	11,325,572
Cash and cash equivalents at end of period	\$12,062,764	\$7,309,567
Supplemental Disclosure of Cash Flow Information:		
Cash paid for income taxes	\$59,184	\$-
Cash paid for interest	\$22,452	\$16,761
Supplemental Disclosure of Non-Cash Investing and Financing Activities:		
Common stock to pay accrued liabilities	\$655,107	\$1,333,957
Preferred stock to pay accrued liabilities	\$100,000	\$200,000
Dividends accrued on preferred stock	\$382,252	\$369,948
Dividends paid with preferred stock	\$364,271	\$-

See accompanying notes to consolidated condensed financial statements.

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PARK CITY GROUP, INC.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(unaudited)

NOTE 1. DESCRIPTION OF BUSINESS

The Company is incorporated in the state of Nevada. The Company has three subsidiaries, PC Group, Inc. (formerly, Park City Group, Inc.), a Utah Corporation (98.76% owned), Park City Group, Inc., (formerly, Prescient Applied Intelligence, Inc.), a Delaware Corporation (100% owned) and ReposiTrak, Inc., a Utah corporation (100% owned) (“ReposiTrak”). All intercompany transactions and balances have been eliminated in consolidation.

The Company designs, develops, markets and supports proprietary software products. These products are designed for businesses having multiple locations to assist in the management of business operations on a daily basis and communicate results of operations in a timely manner. In addition, the Company has built a consulting practice for business improvement that centers on the Company’s proprietary software products. The principal markets for the Company's products are multi-store retail and convenience store chains, branded food manufacturers, suppliers and distributors, and manufacturing companies, which have operations in North America, Europe, Asia and the Pacific Rim. As a result of the acquisition of ReposiTrak in June 2015, the Company also provides food, pharmaceutical, and dietary supplement retailers and suppliers with a robust cloud-based solution to help protect their brands and remain in compliance with business records and regulatory requirements, such as the Food Safety Modernization Act (“FSMA”) and the Drug Quality and Security Act (“DQSA”).

Our services are delivered through proprietary software products designed, developed, marketed and supported by the Company. These products are designed to facilitate improved business processes among all key constituents in the supply chain, starting with the retailer and moving back to suppliers and eventually raw material providers. In addition, the Company has also built a consulting practice for business improvement that centers on the Company’s proprietary software products and through establishment of a neutral and “trusted” third party relationship between retailers and suppliers. The principal markets for the Company's products are multi-store retail and convenience store chains, branded food manufacturers, suppliers and distributors, and manufacturing companies, which have operations in North America, Europe, Asia and the Pacific Rim.

Basis of Financial Statement Presentation

The interim financial information of the Company as of December 31, 2016 and for the three and six months ended December 31, 2016 and 2015 is unaudited, and the balance sheet as of June 30, 2016 is derived from audited financial statements. The accompanying condensed consolidated financial statements have been prepared in accordance with U. S. generally accepted accounting principles for interim financial statements. Accordingly, they omit or condense notes and certain other information normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles. The accounting policies followed for quarterly financial reporting conform with the accounting policies disclosed in Note 2 to the Notes to Financial Statements included in our Annual Report on Form 10-K for the year ended June 30, 2016. In the opinion of management, all adjustments necessary for a fair presentation of the financial information for the interim periods reported have been made. All such adjustments are of a normal recurring nature. The results of operations for the three and six months ended December 31, 2016 are not necessarily indicative of the results that can be expected for the fiscal year ending June 30, 2017. The unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended June 30, 2016.

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NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The financial statements presented herein reflect the consolidated financial position of Park City Group, Inc. and subsidiaries. All inter-company transactions and balances have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that materially affect the amounts reported in the consolidated financial statements. Actual results could differ from these estimates. The methods, estimates and judgments the Company uses in applying its most critical accounting policies have a significant impact on the results it reports in its financial statements. The Securities and Exchange Commission has defined the most critical accounting policies as those that are most important to the portrayal of the Company's financial condition and results, and require the Company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, the Company's most critical accounting policies include: income taxes, goodwill and other long-lived asset valuations, revenue recognition, stock-based compensation, and capitalization of software development costs.

Earnings Per Share

Basic net income or loss per common share ("Basic EPS ") excludes dilution and is computed by dividing net income or loss by the weighted average number of common shares outstanding during the period. Diluted net income or loss per common share ("Diluted EPS ") reflects the potential dilution that could occur if stock options or other contracts to issue shares of common stock were exercised or converted into common stock. The computation of Diluted EPS does not assume exercise or conversion of securities that would have an anti-dilutive effect on net income (loss) per common share.

For the six months ended December 31, 2015 warrants to purchase 1,426,178 shares of common stock, were not included in the computation of diluted EPS due to the anti-dilutive effect. Such warrants were outstanding at prices ranging from \$3.50 to \$10.00 per share.

		Three Months Ended		Six Months Ended	
		December 31,		December 31,	
		2016	2015	2016	2015

Numerator

Net income (loss) applicable to common shareholders	\$1,182,880	\$110,623	\$1,610,529	\$(496,057)
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Denominator

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Weighted average common shares outstanding, basic	19,338,000	19,147,000	19,302,000	19,094,000
Warrants to purchase common stock	975,000	888,000	191,000	-
Weighted average common shares outstanding, diluted	20,313,000	20,034,000	19,493,000	19,094,000
Net income (loss) per share				
Basic	\$0.06	\$0.01	\$0.08	\$(0.03)
Diluted	\$0.06	\$0.01	\$0.08	\$(0.03)

Reclassifications

Certain prior-year amounts have been reclassified to conform with the current year's presentation.

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NOTE 3. EQUITY

During the six months ended December 31, 2016 the Company issued 26,862 shares to its directors and 91,782 shares to employees and consultants under the Company's stock compensation plans, 101,249 of which are included in the rollforward of Restricted Stock units below.

Restricted Stock Units

	Restricted Stock Units	Weighted Average Grant Date Fair Value (\$/share)
Outstanding at June 30, 2016	1,051,144	5.82
Granted	50,989	9.81
Vested and issued	(101,249)	6.25
Forfeited	(26,560)	10.23
Outstanding at December 31, 2016	974,324	5.06

As of December 31, 2016, there was approximately \$5.7 million of unrecognized stock-based compensation expense under our equity compensation plans, which is expected to be recognized on a straight line basis over a weighted average period of 5.06 years.

Warrants

The following tables summarize information about warrants outstanding and exercisable at December 31, 2016:

Warrants			Warrants		
Outstanding			Exercisable		
at December 31, 2016			at December 31, 2016		
Range of exercise prices Warrants	Number outstanding at December 31, 2016	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable at December 31, 2016	Weighted average exercise price
\$3.50–4.00	1,306,268	2.78	\$3.93	1,306,268	\$3.93
\$6.45–10.00	100,481	1.99	\$7.29	100,481	\$7.29
	1,406,749	2.72	\$4.17	1,406,749	\$4.17

Preferred Stock

The Company's certificate of incorporation currently authorizes the issuance of up to 30,000,000 shares of 'blank check' preferred stock with designations, rights, and preferences as may be determined from time to time by the Company's Board of Directors, of which 700,000 shares are currently designated as Series B Preferred Stock ("Series B Preferred") and 300,000 shares are designated as Series B-1 Preferred Stock ("Series B-1 Preferred"). Both classes of Series B Preferred Stock, which are treated as permanent pieces of our capital structure due to the fact that they are nonredeemable and nonconvertible, pay dividends at a rate of 7% per annum if paid by the Company in cash, or 9% if paid by the Company in additional shares of Series B-1 Preferred ("PIK Shares"). The Company may elect to pay accrued dividends on outstanding shares of Series B Preferred in either cash or by the issuance of PIK Shares. During the six months ended December 31, 2016, the Company issued 36,427 PIK Shares for accrued dividends payable with respect to the Series B Preferred, and 10,000 shares of Series B-1 Preferred in satisfaction of an accrued bonus payable to the Company's CEO.

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NOTE 4. RELATED PARTY TRANSACTIONS

During the six months ended December 31, 2016, the Company continued to be a party to a Service Agreement with Fields Management, Inc. ("FMI"), pursuant to which FMI provided certain executive management services to the Company, including designating Randall K. Fields to perform the functions of President and Chief Executive Officer for the Company. Mr. Fields also serves as the Company's Chairman of the Board of Directors and controls FMI. The Company had payables of \$145,478 and \$32,253 to FMI at December 31, 2016 and June 30, 2016, respectively, under this agreement. In addition, during the six months ended December 31, 2016, 10,000 shares of Series B-1 Preferred were paid to FMI in satisfaction of an accrued bonus payable to Mr. Fields.

During the six months ended December, 2016, the Company also issued 36,427 PIK Shares for accrued dividends payable with respect to the Series B Preferred, of which 4,227 were issued to Robert W. Allen, a director of the Company, and 32,200 were issued to Riverview Financial Corp., an entity beneficially owned by Mr. Fields. In addition, \$5,288 was paid to Julie Fields, Mr. Fields spouse, as a dividend paid with respect to the Series B Preferred beneficially owned by Ms. Fields.

NOTE 5. RECENT ACCOUNTING PRONOUNCEMENTS

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. Historically, there has been a diversity in practice in how certain cash receipts/payments are presented and classified in the statement of cash flows under Topic 230. To reduce the existing diversity in practice, this update addresses multiple cash flow issues. The amendments in this update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The Company notes that this guidance applies to its reporting requirements and will implement the new guidance accordingly.

In May 2014, August 2015, April 2016 and May 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09 (ASC Topic 606), Revenue from Contracts with Customers, ASU 2015-14 (ASC Topic 606) Revenue from Contracts with Customers, Deferral of the Effective Date, ASU 2016-10 (ASC Topic 606) Revenue from Contracts with Customers, Identifying Performance Obligations and Licensing, and ASU 2016-12 (ASC Topic 606) Revenue from Contracts with Customers, Narrow-Scope Improvements and Practical Expedients, respectively. ASC Topic 606 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. It also requires entities to disclose both quantitative and qualitative information that enable financial statements users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The amendments in these ASUs are effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is permitted for annual periods beginning after December 15, 2016. This standard may be applied retrospectively to all prior periods presented, or retrospectively with a cumulative adjustment to retained earnings in the year of adoption. The Company is in the process of assessing the impact, if any, on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09 (ASC Topic 718), Stock Compensation—Improvements to Employee Share-Based Payment Accounting. The amendments in this ASU are intended to simplify several areas of accounting for share-based compensation arrangements, including the income tax consequences, classification on the consolidated statement of cash flows and treatment of forfeitures. The amendments in this ASU are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted. The Company is in the process of assessing the impact, if any, of this ASU on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 (ASC Topic 842), Leases. The ASU amends a number of aspects of lease accounting, including requiring lessees to recognize operating leases with a term greater than one year on their balance sheet as a right-of-use asset and corresponding lease liability, measured at the present value of the lease payments. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is in the process of assessing the impact on its consolidated financial statements.

NOTE 6. SUBSEQUENT EVENTS

Subsequent to December 31, 2016, the Company issued 27,204 shares of common stock in connection with the vesting of stock grants issued pursuant to its Stock Plans. The Company also issued 19,280 PIK Shares for dividends payable on the outstanding shares of Series B Preferred.

In accordance with the Subsequent Events Topic of the FASB ASC 855, we have evaluated subsequent events, through the filing date and noted no additional subsequent events that are reasonably likely to impact the financial statements.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements. The words or phrases "would be," "will allow," "intends to," "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," or similar expressions are intended to identify "forward-looking statements." Actual results could differ materially from those projected in the forward looking statements as a result of a number of risks and uncertainties, including those risks factors contained in our June 30, 2016 Annual Report on Form 10-K, incorporated herein by reference. Statements made herein are as of the date of the filing of this Form 10-Q with the Securities and Exchange Commission and should not be relied upon as of any subsequent date. Unless otherwise required by applicable law, we do not undertake, and specifically disclaim any obligation, to update any forward-looking statements to reflect occurrences, developments, unanticipated events or circumstances after the date of such statement.

Overview

Park City Group, Inc. (the "Company") is a Software-as-a-Service ("SaaS") provider. The Company's technology helps companies to synchronize their systems with those of their trading partners to make more informed business decisions. We provide companies with greater flexibility in sourcing products by enabling them to choose new suppliers and integrate them into their supply chain faster and more cost effectively, and we help them to more efficiently manage these relationships to "stock less and sell more", enhancing revenue while lowering working capital, labor costs and waste. Through our subsidiary, ReposiTrak, we also help reduce a company's potential regulatory, legal, and criminal risk from its supply chain partners by providing a way for them to ensure these suppliers are compliant with food and drug safety regulations, such as the Food Safety Modernization Act ("FSMA") and the Drug Quality and Security Act ("DQSA").

The Company's services are delivered through proprietary software products designed, developed, marketed and supported by the Company. These products are designed to provide transparency and facilitate improved business processes among all key constituents in the supply chain, starting with the retailer and moving back to suppliers and eventually to raw material providers. We provide cloud-based applications and services that address e-commerce, supply chain, and compliance activities. The principal customers for the Company's products are multi-store food retail store chains and their suppliers, branded food manufacturers, food wholesalers and distributors, and other food service businesses.

The Company has a hub and spoke business model. We are typically engaged by retailers and distributors ("Hubs"), which in turn have us engage their suppliers ("Spokes") to sign up for our services. The bulk of the Company's revenue is from recurring subscription payments typically based on a monthly volume metric between the Hub and the Spoke. We also have a professional services business, which conducts customization, implementation, and training, for which revenue is recognized on a percentage-of-completion or pro rata over the life of the subscription, depending on the nature of the engagement. In a few instances the Company will also sell its software in the form of a license.

The Company is incorporated in the state of Nevada. The Company has three subsidiaries: PC Group, Inc. (formerly, Park City Group, Inc., a Delaware corporation), a Utah corporation (98.76% owned), Park City Group, Inc. (formerly, Prescient Applied Intelligence, Inc.), a Delaware corporation (100% owned) and ReposiTrak, Inc., a Utah corporation (100% owned). All intercompany transactions and balances have been eliminated in consolidation.

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Our principal executive offices of the Company are located at 299 South Main Street, Suite 2370, Salt Lake City, Utah 84111. Our telephone number is (435) 645-2000. Our website address is <http://www.parkcitygroup.com>, and Repositrak's website address is <http://repositrak.com>.

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Results of Operations

Comparison of the Three Months Ended December 31, 2016 to the Three Months Ended December 31, 2015.

Revenue

Fiscal Quarter Ended December 31,		Variance	
2016	2015	Dollars	Percent
Revenues \$4,785,589	\$3,536,792	\$1,248,797	35%

Revenue was \$4,785,589 and \$3,536,792 for the three months ended December 31, 2016 and 2015, respectively, a 35% increase. This increase was due primarily to an increase in revenue attributable, in part, to new applications including ReposiTrak, our Vendor Portal, and related services and subscriptions. Increases in the number of new customers, both retailers and wholesalers and their suppliers, and an acceleration of the rate at which the Company was able to convert these suppliers into connections as a result of improved processes and execution also contributed to this increase.

Cost of Services and Product Support

	Fiscal Quarter Ended		Variance	
	2016	2015	Dollars	Percent
Cost of services and product support	\$1,190,404	\$998,928	\$191,476	19%
Percent of total revenue	25%	28%		

Cost of services and product support was \$1,190,404 and \$998,928 for the three months ended December 31, 2016 and 2015, respectively, a 19% increase. This increase is primarily attributable to an increase in employee related expense, capitalization of software development costs in the prior year, and a small increase in infrastructure costs.

Sales and Marketing Expense

	Fiscal Quarter Ended December 31,		Variance	
	2016	2015	Dollars	Percent
Sales and marketing	\$1,159,073	\$1,401,068	\$(241,995)	-17%
Percent of total revenue	24%	40%		

Sales and marketing expense was \$1,159,073 and \$1,401,068 for the three months ended December 31, 2016 and 2015, respectively, a 17% decrease. This decrease in sales and marketing expense is a result of decreases in the use of

contracted sales representatives, employee headcount related expenses, reduction in marketing and promotion expenses, and a decrease in travel expenses.

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General and Administrative Expense

	Fiscal Quarter Ended December 31,		Variance	
	2016	2015	Dollars	Percent
General and administrative	\$938,087	\$732,444	\$205,643	28%
Percent of total revenue	20%	21%		

General and administrative expense was \$938,087 and \$732,444 for the three months ended December 31, 2016 and 2015, respectively, a 28% increase in the three months ended December 31, 2016 compared with the three months ended December, 2015. This increase is primarily attributable to an increase in compensation related expenses, an increase to bad debt expense, and an increase in public relations expense. These increases were partially offset by a decrease in professional fees.

Depreciation and Amortization Expense

	Fiscal Quarter Ended December 31,		Variance	
	2016	2015	Dollars	Percent
Depreciation and amortization	\$112,861	127,416	\$(14,555)	-11%
Percent of total revenue	2%	4%		

Depreciation and amortization expense was \$112,861 and \$127,416 for the three months ended December 31, 2016 and 2015, respectively, a decrease of 11%. This decrease is primarily due to the full amortization of many assets, partially offset by amortization of capitalized software costs.

Other Income and Expense

	Fiscal Quarter Ended December 31,		Variance	
	2016	2015	Dollars	Percent
Net other (expense) income	\$(6,836)	\$4,247	11,083	261%
Percent of total revenue	NM	NM		

Net other expense was \$6,836 for the three months ended December 31, 2016 compared to net other income of \$4,247 for the three months ended December 31, 2015. This increase in expenses was due to interest expense on new notes payable.

Preferred Dividends

	Fiscal Quarter Ended		Variance	
	December 31,			
	2016	2015	Dollars	Percent
Preferred dividends	195,448	\$170,560	\$24,888	15%
Percent of total revenue	4%	5%		

Dividends accrued on the Company's Series B Preferred and Series B-1 Preferred was \$195,448 for the three months ended December 31, 2016, compared to dividends accrued on the Series B Preferred of \$170,560 for the year ended December 31, 2015. This increase is due to the payment of PIK Shares.

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Comparison of the Six Months Ended December 31, 2016 to the Six Months Ended December 31, 2015.

Revenue

Six Months Ended December 31,		Variance	
2016	2015	Dollars	Percent
Revenue	\$9,002,134	\$6,635,423	\$2,366,711 36%

Revenue was \$9,002,134 and \$6,635,423 for the six months ended December 31, 2016 and 2015, respectively, a 36% increase. This \$2,366,711 period over period increase in revenue is primarily due to an increase in revenue attributable, in part, to new applications including ReposiTrak, our Vendor Portal, and related services and subscriptions. Increases in the number of new customers, both retailers and wholesalers and their suppliers, and an acceleration of the rate at which the Company was able to convert these suppliers into connections as a result of improved processes and execution also contributed to this increase.

Cost of Services and Product Support

	Six Months Ended		Variance	
	2016	2015	Dollars	Percent
Cost of services and product support	\$2,393,919	\$2,173,474	\$220,445	10%
Percent of total revenue	27%	33%		

Cost of services and product support was \$2,393,919 and \$2,173,474 for the six months ended December 31, 2016 and 2015, respectively, a 10% increase compared with the six months ended December 31, 2015. This period over period increase is principally due to an increase in employee related expense, an increase related to the capitalization of software development costs in the prior year and an increase in infrastructure costs.

Sales and Marketing Expense

	Six Months Ended December 31,		Variance	
	2016	2015	Dollars	Percent
Sales and marketing	\$2,352,249	\$2,843,640	\$(491,391)	-17%
Percent of total revenue	26%	43%		

Sales and marketing expense was \$2,352,249 and \$2,843,640 for the six months ended December 31, 2016 and 2015, respectively, a 17% decrease. This period over period decrease is due to a decrease in employee related expense, a

decrease in marketing and promotional expense and a reduction in travel related expense.

General and Administrative Expense

	Six Months Ended December 31,		Variance	
	2016	2015	Dollars	Percent
General and administrative	\$1,961,237	\$1,509,774	\$451,463	30%
Percent of total revenue	22%	23%		

General and administrative expense was \$1,961,237 and \$1,509,774 for the six months ended December 31, 2016 and 2015, respectively, a 30% increase. This increase is principally due to an increase in headcount costs, an increase in bad debt expense, and an increase related to estimated tax payments and other facility related costs.

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Depreciation and Amortization Expense

	Six Months Ended December 31,		Variance	
	2016	2015	Dollars	Percent
Depreciation and amortization	\$229,441	\$256,514	\$(27,073)	-11%
Percent of total revenue	3%	4%		

Depreciation and amortization expense was \$229,441 and \$256,514 for the six months ended December 31, 2016 and 2015, respectively, a decrease of 11%. This comparative decrease is related to the full amortization of many assets partially offset by amortization of capitalized software development costs.

Other Income and Expense

	Six Months Ended		Variance	
	2016	2015	Dollars	Percent
Net other (expenses) income	\$(13,323)	\$21,870	\$35,193	161%
Percent of total revenue				

Net other expense was \$13,232 for the six months ended December 31, 2016 an increase in net other expense of \$35,193 when compared to net other income of \$21,314 for the six months ended December 31, 2015. This change was due to interest on new notes payable, that were issued in the 2nd half of the prior year.

Preferred Dividends

	Six Months Ended December 31,		Variance	
	2016	2015	Dollars	Percent
Preferred dividends	\$382,252	\$369,948	\$12,304	3%
Percent of total revenue	4%	6%		

Dividends accrued on the Company's Series B Preferred was \$382,252 for the six months ended December 31, 2016, compared to dividends accrued on the Company's Series B Preferred and Series B-1 Preferred of \$369,948 for the six months ended December 31, 2015. This increase is due to the payment of PIK dividends.

Financial Position, Liquidity and Capital Resources

We believe our existing cash and short-term investments, together with funds generated from operations, are sufficient to fund operating and investment requirements for at least the next twelve months. Our future capital requirements will depend on many factors, including our rate of revenue growth and expansion of our sales and marketing activities, the timing and extent of spending required for research and development efforts and the continuing market acceptance of our products.

	As of December 31,		Variance	
	2016	2015	Dollars	Percent
Cash and cash equivalents	\$12,062,764	\$7,309,567	\$4,753,197	65%

We have historically funded our operations with cash from operations, equity financings and debt borrowings. Cash was \$12,062,764 and \$7,309,567 at December 31, 2016 and 2015, respectively. This \$4,753,197 increase is principally the result of decreased cash flows used in investing activities. Investments in marketable securities made during the six months ended December 31, 2015 were subsequently sold throughout the year ended June 30, 2016. This has resulted in an increased cash and cash equivalent balance at December 31, 2016 when compared to the prior period.

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Net Cash Flows from Operating Activities

	Six Months Ended December 31,		Variance	
	2016	2015	Dollars	Percent
Cash provided by operating activities	\$379,067	\$80,801	\$298,266	369%

Net cash provided by operating activities is summarized as follows:

	Six Months Ended December 31,	
	2016	2015
Net Income/loss	\$1,992,781	\$(126,109)
Noncash expense and income, net	963,221	774,393
Net changes in operating assets and liabilities	(2,576,935)	(567,483)
	\$	